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RUEHB/AMEMBASSY BUENOS AIRES 1601
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RUEHQ/AMEMBASSY QUITO 2599
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C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 000833

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ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD
NSC FOR DTOMLINSON

E.O. 12958: DECL: 01/12/2017
TAGS: EPET ENRG EINV ECON VE
SUBJECT: CHEVRON PROVIDES MORE DETAILS ON MOU

REF: A. CARACAS 825

1B. CARACAS 659

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

11. (C) SUMMARY: Chevron believes production at the Hamaca strategic association will decline 30% due to morale issues related to uncertainty among employees. Chevron expects the BRV to adopt a more private sector friendly hydrocarbons policy by 2009 due to production declines and fiscal pressures. The company will not provide employees with incentives to transfer to the new joint ventures. The transitory operations committee decisions will be made by simple majority, which PDVSA will have. END SUMMARY

PRODUCTION AND LABOR ISSUES

12. (C) Petroleum Attaché (Petatt) met with Chevron Latin America President Ali Moshiri (strictly protect throughout) on April 27 to follow up on Moshiri's phone call to the Ambassador the previous day (Reftel A). When asked about recent reports in the press that PDVSA's salary offer to strategic association employees was 15 to 70% below what they were currently making, Moshiri replied that he did not think that the compensation package offered strategic association employees would cause problems. He stated he has told the Chevron board that production will drop at the Hamaca strategic association by 30% following PDVSA's assumption of operational control on May 1. Moshiri stated the decline would stem from morale issues related to uncertainty among employees. (NOTE: Chevron has a 30% stake in the Hamaca strategic association located in the Faja region of Venezuela. ConocoPhillips has a 40% stake and PDVSA has the remaining 30%. END NOTE).

13. (C) In order to make his point that the compensation package was not vital, Moshiri noted 85% of Chevron's

employees in the former Boscan operating service agreement field migrated to a PDVSA controlled joint venture. Moshiri admitted, however, that Chevron had given employees incentives to migrate. When Petatt asked if similar incentives would be given to Hamaca employees, Moshiri replied no. He stated Boscan employees were direct employees of Chevron under the operating service agreement and that the equity situation in Hamaca was different. Under Hamaca, employees, with the obvious exception of secondees, are employees of the association rather than the individual partners.

¶3. (C) Moshiri also said PDVSA Exploration and Production Vice President Luis Vierma has complained that he does not have enough qualified employees to staff the strategic associations after May 1. Vierma was unhappy because he will have to cannibalize existing PDVSA operations. Moshiri later stated Chevron would attempt to place its employees in the operations and finance manager positions in the new Hamaca joint venture. He stated Chevron is seeking the positions due to concerns about SEC reporting requirements. Moshiri seemed confident that senior BRV and PDVSA officials would grant Chevron's request.

¶4. (C) He said he believes the BRV will adopt a private sector friendly hydrocarbon policy by 2008. He argued that falling production levels and fiscal constraints will force the BRV to turn to the international oil companies (IOC) for help. He does not believe the BRV will try to rely on service companies instead of the IOCs because it trusts them even less than the IOCs. According to Moshiri, service companies tend to gossip more than IOCs. (COMMENT: Our hydrocarbon contacts fall into two distinct camps: the

CARACAS 00000833 002 OF 003

optimists and the pessimists. Both camps believe that oil production will continue dropping and that the BRV will eventually ruin the Venezuelan economy. The optimists, like Moshiri, believe that once that happens Chavez will become more pragmatic and turn to the IOCs to increase the size of the economic pie via increased oil production. The pessimists, on the other hand, believe that Chavez, due to ideological constraints and hubris, will become more repressive and take an ever larger portion of a shrinking economic pie. END COMMENT).

MORE MOU DETAILS

¶5. (C) A clearly concerned Moshiri permitted Petatt to see an English version of the document that Moshiri signed on April 25. The document was clearly labeled memorandum of understanding (MOU). The five paragraph document contained all of the terms that Moshiri described to the Ambassador on April 26 (Reftel A). However, it stated in the second paragraph that the president of the transitory operations committee would be appointed by CVP, the PDVSA affiliate that is handling the migration of the associations, and that the president would also act as general manager in charge of operations. In addition, the paragraph stated committee decisions would be reached by simple majority. Since PDVSA controls five of the nine committee seats, it has complete control of operations.

¶6. (C) The MOU's third paragraph stated all decisions will be made to assure the execution of the annual work program and budget for 2007. It also said the MOU does not deal with any other matters except the transfer of the control of operations.

¶7. (C) According to the fourth paragraph, "all income, costs, and expenses," during the transition period will be dealt with under the same terms as before. The paragraph also contained a clause stating "all existing contracts with contractors shall continue to be complied with." The MOU did not define the term "transition period." Moshiri told Petatt

that the term meant the period from May 1 to June 26.

VIEWS ON OTHER IOCS

¶8. (C) Moshiri stated that Chevron would not withdraw its expat employees under any circumstances. He indirectly criticized ConocoPhillips' (CP) decision to do so and compared them negatively to ExxonMobil (XM). Moshiri stated XM has acted in a "mature" manner and has left its employees in place. He also said he believes XM is drawing up detailed transfer procedures and is acting in a professional manner. He said Chevron would act in a similar manner if the BRV ever asked it to leave. Moshiri later surprised Petatt by stating he believes XM will stay in Venezuela. He based his belief on the idea that XM shareholders would not look favorably on XM pulling out of Venezuela.

¶9. (C) Moshiri's positive comments regarding XM were echoed by BP Venezuela President Joe Perez (strictly protect throughout) in a phone conversation with Petatt on April 27. Perez stated XM has done a good job on the handover and that both Energy Minister Ramirez and CVP President Del Pino were pleased. He also said BP was happy with XM's efforts. He stated XM has done everything that could possibly have been done to make the handover of operations a success.

¶10. (C) (COMMENT: Although we are not sure we agree with Moshiri's view that XM will stay, it strikes us that their efforts to assure that the handover of operations in Cerro

CARACAS 00000833 003 OF 003

Negro is a success may stand them in good stead as they negotiate with the BRV. Carlos Ernesto Rodriguez, XM's government relations manager (strictly protect throughout), told Petatt on April 26 that PDVSA Refinery Vice President Alejandro Granado has appeared at two of its negotiating sessions. XM believes this raises the possibility that the BRV and PDVSA are willing to compensate it for lost value with refining assets in the United States despite public and private statements to the contrary (Reftel B). END COMMENT

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